

**FIRE DISTRICT NO. 2
JOHNSON COUNTY, KANSAS**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

**TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fire District No. 2, Johnson County, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Fire District No. 2, Johnson County, Kansas (the District), as of and for the year ended December 31, 2014, and related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed by the *Kansas Municipal Audit and Accounting Guide (KMAAG)* to demonstrate compliance with KMAAG's basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of the District as of December 31, 2014, and its cash receipts and expenditures, and budgetary results for the year then ended, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As discussed in Note 1, the District prepares its financial statements using accounting practices prescribed or permitted by the State of Kansas, to demonstrate compliance with the KMAAG's regulatory basis of accounting and budget laws, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. Our opinion is not modified with respect to this matter.

Louise, Gorman & Co., P.C.
Olathe, Kansas
July 30, 2015

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES, AND UNENCUMBERED CASH
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
General funds, General	\$ 271,731	\$ -	\$ 3,693,875	\$ 3,838,356	\$ 127,250	\$ 36,592	\$ 163,842
Special purpose fund, Ambulance	115,280	-	537,442	550,000	102,722	-	102,722
Bond and interest fund, Bond and interest	188,884	-	391,364	478,220	102,028	-	102,028
Reserve funds: Equipment	775,554	-	126,888	313,311	589,131	-	589,131
Building	10,000	-	-	-	10,000	-	10,000
Total reporting entity	\$ 1,361,449	\$ -	\$ 4,749,569	\$ 5,179,887	\$ 931,131	\$ 36,592	\$ 967,723

Composition of cash:

Money market accounts, First National Bank	\$ 144,547
Municipal investment pool	767,773
Checking accounts: Peoples Bank	57,359
First National Bank	(2,256)
Petty cash	300
Total reporting entity	\$ 967,723

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS
SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
General fund, General fund	\$ 3,892,071	\$ -	\$ 3,892,071	\$ 3,838,356	\$ 53,715
Special purpose, Ambulance	550,000	-	550,000	550,000	-
Bond and interest, Debt service	<u>478,220</u>	<u>-</u>	<u>478,220</u>	<u>478,220</u>	<u>-</u>
Total	<u>\$ 4,920,291</u>	<u>\$ -</u>	<u>\$ 4,920,291</u>	<u>\$ 4,866,576</u>	<u>\$ 53,715</u>

See accompanying notes.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS
GENERAL FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

	ACTUAL	BUDGET	VARIANCE OVER (UNDER)
RECEIPTS:			
Ad valorem taxes	\$ 2,197,929	\$ 2,233,809	\$ (35,880)
Delinquent taxes	29,145	30,000	(855)
Recreation vehicle tax	2,546	2,063	483
Motor vehicle tax	254,150	234,698	19,452
Heavy truck tax	4,120	4,161	(41)
Excise tax	14	-	14
Reimbursement and miscellaneous	32,153	48,500	(16,347)
Miami County Fire District	164,531	161,176	3,355
City of Spring Hill	508,272	508,272	-
City of Overland Park	500,901	368,615	132,286
Interest on idle funds	114	-	114
Total receipts	<u>3,693,875</u>	<u>\$ 3,591,294</u>	<u>\$ 102,581</u>
EXPENDITURES:			
Payroll, payroll taxes, and employee benefits	3,725,238	3,845,021	119,783
Training and tuition	42,735	45,500	2,765
Uniforms and bunker gear	37,577	30,000	(7,577)
Ambulance - consumable supplies and fees	4,085	7,700	3,615
Fire - consumable supplies	5,875	6,000	125
Fire prevention	-	4,350	4,350
Communication - telephones, radios, and pagers	44,250	45,400	1,150
Truck, ambulance, and auto - maintenance, title, and fuel	107,212	130,000	22,788
Maintenance of equipment and tool purchases	27,293	30,500	3,207
Utilities	60,328	56,500	(3,828)
Insurance - buildings and equipment	70,401	57,000	(13,401)
Administrative and office	24,180	30,300	6,120
Capital outlay - new equipment and buildings (non-major)	37,948	57,700	19,752
Legal	18,513	20,000	1,487
Repairs and maintenance - equipment and buildings	40,010	27,600	(12,410)
Accounting, auditing, budgeting, and payroll services	31,221	28,000	(3,221)
Ambulance run fee billing service	10,653	13,000	2,347
Med-Act trip charges	837	7,500	6,663
Less - unallocated ambulance expenses included	(550,000)	(550,000)	-
Operating transfers	100,000	-	(100,000)
Total expenditures	<u>3,838,356</u>	<u>3,892,071</u>	<u>53,715</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(144,481)	(300,777)	<u>\$ 156,296</u>
UNENCUMBERED CASH BALANCE, BEGINNING	<u>271,731</u>		
UNENCUMBERED CASH BALANCE, ENDING	<u>\$ 127,250</u>		

See accompanying notes.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS
 AMBULANCE FUND
 SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	ACTUAL	BUDGET	VARIANCE OVER (UNDER)
RECEIPTS:			
Ad valorem taxes	\$ 332,582	\$ 338,074	\$ (5,492)
Delinquent taxes	3,781	-	3,781
Recreation vehicle tax	326	261	65
Motor vehicle tax	32,588	30,005	2,583
Heavy truck tax	537	666	(129)
Excise tax	3	-	3
Miami Co Fire District	30,000	30,000	-
Ambulances run fees	137,625	120,000	17,625
Total receipts	<u>537,442</u>	<u>\$ 519,006</u>	<u>\$ 18,436</u>
EXPENDITURES,			
Unallocated ambulance expenses	<u>550,000</u>	<u>\$ 550,000</u>	<u>-</u>
RECEIPTS OVER (UNDER) EXPENDITURES	(12,558)	(30,994)	<u>\$ 18,436</u>
UNENCUMBERED CASH BALANCE, BEGINNING	<u>115,280</u>		
UNENCUMBERED CASH BALANCE, ENDING	<u>\$ 102,722</u>		

See accompanying notes.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS
DEBT SERVICE FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

	ACTUAL	BUDGET	VARIANCE OVER (UNDER)
RECEIPTS:			
Ad valorem taxes	\$ 326,320	\$ 309,264	\$ 17,056
Delinquent taxes	8,569	-	8,569
Recreation vehicle tax	502	950	(448)
Motor vehicle tax	54,760	43,159	11,601
Heavy truck tax	1,189	940	249
Excise tax	2	-	2
Interest income	22	-	22
Total receipts	<u>391,364</u>	<u>\$ 354,313</u>	<u>\$ 37,051</u>
EXPENDITURES:			
Bond principal payment	390,000	390,000	-
Interest payments	<u>88,220</u>	<u>88,220</u>	-
Total expenditures	<u>478,220</u>	<u>\$ 478,220</u>	-
RECEIPTS OVER (UNDER) EXPENDITURES	(86,856)	(123,907)	<u>\$ 37,051</u>
UNENCUMBERED CASH BALANCE, BEGINNING	<u>188,884</u>		
UNENCUMBERED CASH BALANCE, ENDING	<u>\$ 102,028</u>		

See accompanying notes.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS
EQUIPMENT REPLACEMENT RESERVE FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>ACTUAL</u>
RECEIPTS:	
Interest income	\$ 38
Other	26,850
Operating transfers	<u>100,000</u>
Total receipts	<u>126,888</u>
EXPENDITURES,	
Equipment purchases	<u>313,311</u>
RECEIPTS (UNDER) EXPENDITURES	<u>(186,423)</u>
UNENCUMBERED CASH BALANCE, BEGINNING	<u>775,554</u>
UNENCUMBERED CASH BALANCE, ENDING	<u>\$ 589,131</u>

See accompanying notes.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS
BUILDING REPLACEMENT RESERVE FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>ACTUAL</u>
RECEIPTS	<u>\$ -</u>
EXPENDITURES	<u>-</u>
RECEIPTS (UNDER) EXPENDITURES	-
UNENCUMBERED CASH BALANCE, BEGINNING	<u>10,000</u>
UNENCUMBERED CASH BALANCE, ENDING	<u>\$ 10,000</u>

See accompanying notes.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity: Fire District No. 2, Johnson County, Kansas (the District), was created June 6, 1974, by the Board of County Commissioners of Johnson County, under the provisions of K.S.A. 19-3613. The District is governed by a five member Board of Directors that is appointed by the Third District Commissioner and must reside in the fire district area. The Board of Directors helps to oversee the operation of the District's fire department and selection of regular fire department employees. The District's service area is comprised of approximately 140 square miles of Johnson County and Miami County. The District's financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 3100 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, include whether:

1. The organization is legally separate (can sue and be sued in their own name).
2. The District holds the corporate powers of the organization.
3. The District appoints a voting majority of the organization's Board.
4. The District is able to impose its will on the organization.
5. The organization has the potential to impose a financial benefit or burden on the District.
6. There is fiscal dependency of the organization by the District.

Based on the aforementioned criteria, Fire District No. 2, Johnson County, Kansas, has no component units.

Basis of Accounting: *Regulatory Basis of Accounting and Departure from Accounting Principles Generally accepted in the United States of America.* The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities, or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Reimbursements: A reimbursement is an expenditure or expense initially made in one fund, but properly attributable to another fund. For example, it is common for the general fund to pay a vendor's bill and have portions of it reimbursed by other funds. In accounting for such reimbursements, the District records an expenditure in the reimbursing fund and a reduction of expenditure in the reimbursed fund, following the authoritative guidance provided under KMAAG regulatory basis accounting.

Regulatory Basis Fund Types:

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Fund – used to account for the proceeds of specific tax levies and other specific regulatory sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds, and payment of general long-term debt.

Budgetary Information: Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), principal and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for the year ended December 31, 2014.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Budgetary Information (Continued):

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds, fiduciary funds, permanent funds, and the following special purpose funds:

Building Replacement Reserve Fund
Equipment Replacement Reserve

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Investments: The District invests in authorized investment pools. Investments are carried at fair value.

Cash and Cash Equivalents: Cash of all funds, excluding the District's payroll clearing account, is pooled in a common interest bearing bank account in order to maximize investment opportunities.

Inventories and Prepaid Expenses: Inventories and prepaid expenses, which benefit future periods, are recorded as expenditures during the year of purchase as required by state statute.

Capital Assets: The expenditures for capital assets are reflected in the year the expenditures are made. No estimated useful lives, in years, have been calculated for depreciation purposes for fixed assets.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

2. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in insurance coverage from the prior year.

3. DEPOSITS AND INVESTMENTS:

At December 31, 2014, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 year</u>	<u>Rating</u>
Kansas Municipal Investment Pool	\$ <u>767,774</u>	\$ <u>1,183,804</u>	S&P AA+/S1+

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices. The rating of the District's investments is noted above.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405. The District's allocation of investments as of December 31, 2014, is as follows:

<u>Investments</u>	<u>Percentage of Investments</u>
Kansas Municipal Investment Pool	100%

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (Continued):

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods". All deposits were legally secured at December 31, 2014.

At December 31, 2014, the District's carrying amount of deposits was \$199,950 and the bank balance was \$105,579. The entire bank balance was covered by federal depository insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

At December 31, 2014, the District had invested \$767,774 in the State's municipal investment pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that are insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. No more than 10% of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

4. COMPENSATED ABSENCES:

Vacation leave – Vacation leave shall be earned from the most recent date of employment. Leave is accrued by full time employees at a rate based on the years of service completed with the District, the work assignment, and the customary number of hours in the pay period. Employees are allowed to carry over unused vacation leave from year to year. The maximum amount any employee can accrue at any time is twice their annual accrual amount. Upon termination, an employee shall be compensated for all earned but unused vacation leave at their final rate of pay. The estimated liability for accrued vacation leave at December 31, 2014, is \$156,880.

Sick leave – The District's policy allows employees to accrue sick leave on a monthly basis. Shift employees in regular full-time positions accrue one working day each month of service. Forty hour per week employees in regular full-time positions accrue two working days for each month of service. The maximum accrual is 45 days for shift employees and ninety days for regular full-time employees. No unused accumulated sick pay is paid at termination.

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT:

The District has issued General Obligation Bonds Series 2006A dated March 1, 2006, in the amount of \$1,055,000 for the purpose of fire station upgrades and remodeling. Also, the District issued General Obligation Bonds Series 2007A dated November 15, 2007, in the amount of \$3,000,000 for the purpose of acquiring new fire apparatus.

A summary of general long-term debt is as follows:

General obligation bonds:

\$1,055,000 Series 2006-A, dated March 1, 2006, due
in annual installments of \$65,000 to \$85,000, until maturity
on September 1, 2021, interest at 3.5% to 5% \$ 585,000

\$3,000,000 Series 2007-A, dated November 15, 2007, due
in annual installments of \$280,000 to \$400,000, until maturity
on September 1, 2018, interest at 3.45% to 4.25% 1,415,000

Total long-term debt \$ 2,000,000

Changes in the District's long-term debt balances for the year ended December 31, 2014, were as follows:

	Balance January 1, 2014	Additions	Retirements	Balance December 31, 2014	Amounts Due Within One Year
General obligation bonds	<u>\$ 2,390,000</u>	<u>\$ -</u>	<u>\$ 390,000</u>	<u>\$ 2,000,000</u>	<u>\$ 405,000</u>

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (Continued):

Aggregate annual principal and interest payments applicable to long-term debt are:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 405,000	\$ 74,628	\$ 479,628
2016	420,000	60,100	480,100
2017	440,000	44,830	484,830
2018	465,000	28,470	493,470
2019	85,000	10,715	95,715
2020-2021	185,000	11,200	196,200
	<u>\$ 2,000,000</u>	<u>\$ 229,943</u>	<u>\$ 2,229,943</u>

6. PROPERTY TAXES:

In accordance with governing state statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and are levied and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County.

Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property.

The estimated assessed valuation of tangible property for the purpose of local taxation as of July 1, 2013, was \$150,926,798. The tax levy per \$1,000 assessed valuation of tangible real and personal property for the calendar year of 2014 was as follows:

General Fund	\$ 14.777
Ambulance	2.236
Bond and interest #4	0.445
Bond and interest #5	<u>1.324</u>
	<u>\$ 18.782</u>

FIRE DISTRICT NO. 2, JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

7. DEFINED BENEFIT PENSION PLAN:

Plan description. The District participates in the Kansas Public Employees Retirement System (KPERS). The plan is part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *ET seq.* KPERS provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefits provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S Kansas, Suite 100, Topeka, KS 66603-3869) or by calling 1-888-275-5737.

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 JPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law established the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. K.S.A. 74-4975 establishes KP&F member-employee contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

The KPERS employer rate established by statute for January 1, 2014 to December 31, 2014, is 9.69%. Included in this rate is the contribution for Group Death and Disability Insurance of .85% through June 30, 2015. The amounts the District has contributed to KPERS for the years ended December 31, 2014, 2013, and 2012, respectively, are equal to the statutory required contribution for each year.

8. INTERFUND TRANSFERS:

Operating transfers were as follows:

From	To	Statutory Authority	Amount
General Fund	Equipment Replacement Reserve Fund	K.S.A. 19-3623e	<u>\$ 100,000</u>

9. EVALUATION OF SUBSEQUENT EVENTS:

In May 2015, the District issued General Obligation Bonds, Series 2015 in the amount of \$2.6 million for the construction of a new fire station. The District has evaluated subsequent events through July 30, 2015, the date which the financial statements were available to be issued.

July 30, 2015

To the Board of Directors
Fire District No. 2, Johnson
County, Kansas

We have audited the financial statements of the governmental activities of Fire District No. 2, Johnson County, Kansas (the District), as of and for the year ended December 31, 2014, and have issued our report thereon dated July 30, 2015. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 24, 2015, our responsibility, as described by professional standards, is to form and express an opinion about whether the regulatory basis financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with the regulatory basis of accounting. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and other matters noted during our audit in a separate letter to you dated July 30, 2015.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Fire District No. 2, Johnson County, Kansas, is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2014. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There were no sensitive accounting estimates affecting the District's financial statements for the year ended December 31, 2014.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the

financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The attached schedule summarizes the material misstatements that we identified as a result of our audit procedures and were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain representations from management, which are included in the attached letter dated July 30, 2015.


Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the District, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

This report is intended solely for the information and use of the Board of Directors and management of Fire District No. 2, Johnson County, Kansas, and is not intended to be and should not be used by anyone other than these specified parties.


TROUTT, BEEMAN & CO., P.C.
Olathe, Kansas